

LEVEL 2 ESTABLISHMENT GRANT OVERVIEW UPDATE

CONNECTICUT HEALTH INSURANCE EXCHANGE

BOARD OF DIRECTORS MEETING

June 21, 2012

Agenda



- Overview
- Approach
- Key Assumptions
- Total Cost – Grant Period
- Estimated Membership
- Review of Key Spending Categories
- IT Budget Development
- Medicaid Allocation
- Self Sustainability
- Questions

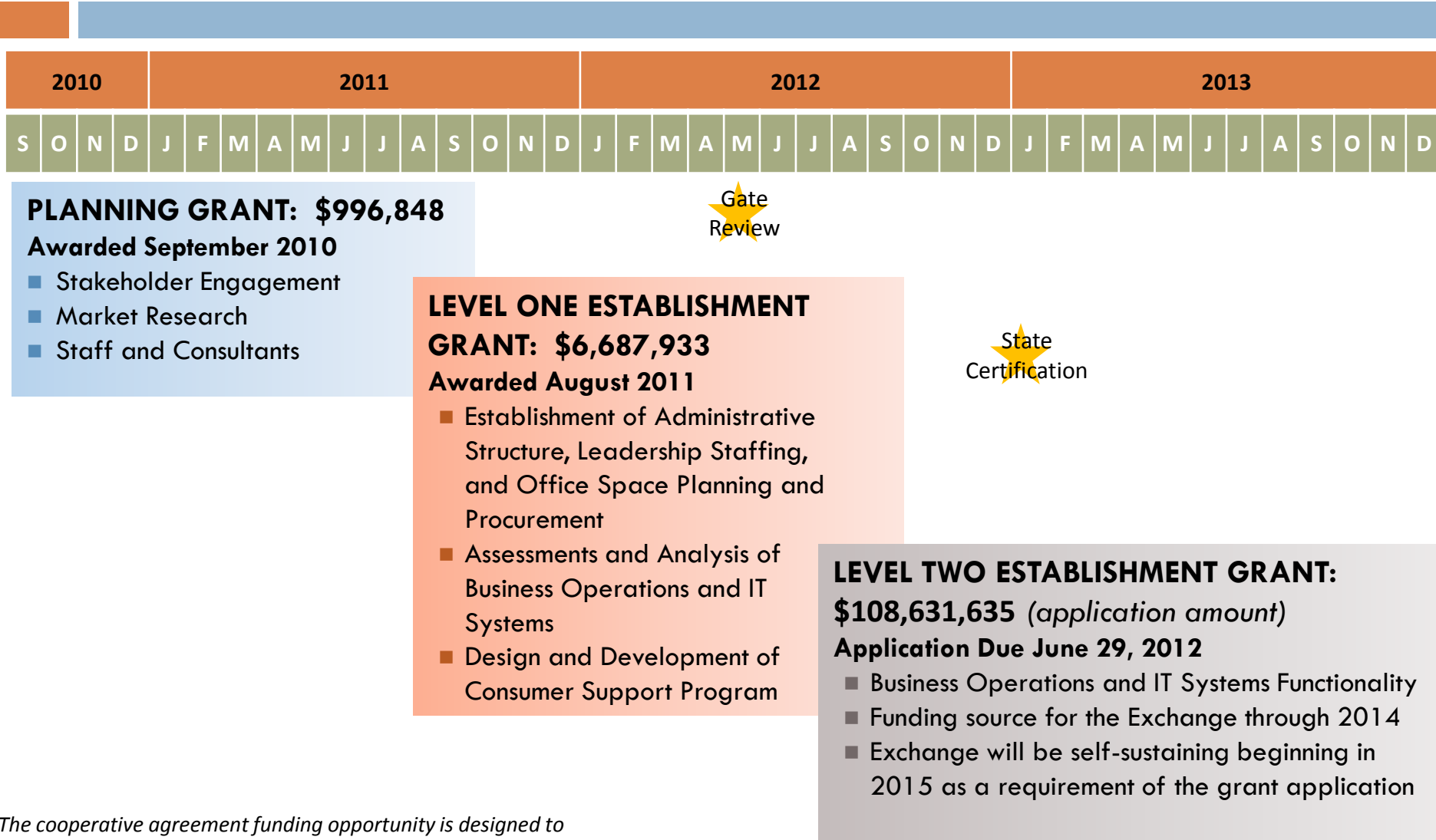
Overview

Goal for today: Comprehensive review of the HIX Level 2 Grant budget and line item categories

- Submission deadline to CCIO is June 29, 2012
- Preliminary drafts of this budget build-up have been shared with the Finance Subcommittee on June 4 and 12 and revisions have been made to reflect feedback
- Target date for submission to CCIO is Wednesday, June 27

Overview:

Exchange Establishment Cooperative Agreements



The cooperative agreement funding opportunity is designed to give States multiple opportunities to apply for funding as they progress through Exchange establishment.

Overview:

Level Two Application Process

Funding Opportunity Announcement (FOA)

U.S. Department of Health and Human Services
Centers for Medicare & Medicaid Services
Center for Consumer Information and Insurance Oversight

Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges

Announcement Type: Amended

Funding Opportunity Number: IE-HBE-11-004
CFDA: 93.525

Date: November 29, 2011

Addendum to Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges

Funding Opportunity Announcement (FOA) No. IE-HBE-11-0004 has been amended on the terms and conditions provided in the FOA. This addendum provides a summary of the amendments to the FOA by section. The amended FOA will immediately follow this addendum.

AMENDMENTS TO THE FUNDING OPPORTUNITY ANNOUNCEMENT

Amendments to Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges, will be included in the body of the funding opportunity announcement in bold, underlined text. This Addendum lists, by section, areas of the funding opportunity announcement that have been amended.

Title Page

- Amended to note that this announcement is issued by the Centers for Medicare & Medicaid Services, Center for Consumer Information and Insurance Oversight.
- Amended to reflect extension of Level One application deadlines through June 29, 2012.

Overview Information

- Amended to note that this announcement is an amendment to an existing announcement.
- Amended to note that this announcement is issued by the Centers for Medicare & Medicaid Services, Center for Consumer Information and Insurance Oversight.
- Amended to reflect extension of Level One application deadlines through June 29, 2012.

- The FOA (Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges) describes the application process
- Level Two application due date: June 29, 2012
- Anticipated notice of award: 45 days after application due date
- **Any overlap with prior Level One submissions will be netted out**
- Period of performance: Award date through December 31, 2014
- CCIO will work closely with CTHIX throughout the application review period and the period of performance to monitor progress and make modifications as necessary
- CTHIX will draw down funds as dictated by CCIO process

Overview:

Level Two Application Components (high-level)

- Project Abstract
- Project Narrative
 - ▣ Demonstration of Past Progress in 11 Core Areas
 - ▣ Proposal to Meet Program Requirements
 - Describes how CTHIX will meet each program requirement
 - Includes description of approach and activities by Core Area
 - ▣ Summary of Exchange IT Gap Analysis
 - ▣ Evaluation Plan
 - ▣ Work Plan
 - ▣ Budget Narrative
 - Costs for activities and functionalities that are integral to Exchange operations and meeting Exchange requirements

Budget Approach

□ Two Major Areas of Establishment Grant Budget

Business Operations/Administration

- Salaries and Fringe
- Communications, Outreach
- Advisory & Professional Resources
- Travel
- Other Non-IT Direct Costs

IT System Functionality

- Exchange platform
- Federal Requirements
- CT-Specific Requirements

**Where applicable, conservatism built into
all budget model assumptions**

- Fiscal prudence
- Reuse of existing assets
- Rolling adjustment prevents waste: under drawdown method, actual costs are justified and submitted to CCIO as they arise

Budget Approach *(con't)*

- Potential Exchange services budgeted but not yet finalized include:
 - ▣ Invoicing & Collections for non-group market (premium billing)
 - ▣ Administration of risk adjustment and reinsurance
 - ▣ Specific use of an All Payer Claims Database (APCD)

Key Budget Assumptions

- Includes costs that can only be justified as Exchange-specific
- Where applicable, and as directed by CCIO, estimates are conservative, but reasonable
- Most of the back-office operations such as Call Center, Enrollment, Eligibility will be outsourced to an entity other than the Exchange
- Premium Billing function for individual market Exchange included although decision not final as to whether the Exchange will be responsible for this function (conservatism)

Key Budget Assumptions *(con't)*

CY 2015 Sustainability Model

- Financial self sustainability is a requirement of grant application
- For fiscal conservatism, assumed the most narrow assessment – applying a fee on the Exchange enrollment only
- Revenue model indicated does not bind the Exchange to a specific model

IT Model

- Connecticut will implement and operate a State-run Exchange
- Certain State IT assets may be reused
- Can take advantage of marketplace by acquiring wherever possible:
 - ▣ A. Commercial Off The Shelf Solution (COTS)
 - ▣ B. Transferable Systems based on COTS

Total Cost – Grant Period (2012 - 2014)

Expense Item	2012	2013	2014	Grant Total
Salaries & Fringe	\$1,882,833	\$5,904,751	\$6,288,067	\$14,075,651
Communications, Advisory & Professional Resources	\$4,790,310	\$9,745,850	\$6,343,507	\$20,879,667
Travel	\$40,275	\$54,854	\$37,808	\$132,937
Other Direct Costs – Non IT	\$411,397	\$1,388,048	\$1,677,514	\$3,476,959
Exchange Infrastructure & Operational Model	\$14,917,444	\$37,015,983	\$39,912,462	\$91,845,889
Total Grant Period	\$22,677,407	\$55,831,213	\$55,502,875	\$130,411,103
<i>IT Cost Alloc. (29.2%) – see slide #25 for context</i>	<i>(\$4,355,894)</i>	<i>(\$9,800,761)</i>	<i>(\$7,622,814)</i>	<i>(\$21,779,469)</i>
Total Grant Request	\$17,686,365	\$44,308,725	\$46,636,544	\$108,631,635

Membership Estimates

Membership Estimates form basis of Revenue Estimates, Sustainability

	Non-Group and Small Group		
	Low	Moderate	High
2014	81,000	90,000	103,500
2015	121,500	135,000	155,250
2016	162,000	180,000	207,000

- Based on consideration and analysis of data estimates from Mercer, Thomson Reuters, Urban Institute, and Mass Connector/Utah Exchange experience
- Primarily used to determine per-member per-month (pmpm) cost during operations
- Important element of self-sustainability model

Staffing & Fringe Estimates

- Necessary to ramp up staffing quickly during last half of 2012 to help ensure successful build and rollout in 2013
- Initial staffing focus is on Senior Mgmt Team and Operations area
- IT Staff represent ongoing resource needs beyond the design and build stage
- Significant focus on Outreach beginning in 2013
- Used a 30% fringe factor to reflect difference in benefit package for Exchange staff relative to state employees (primarily retirement plan)

\$14,075,651

	2012	2013	2014
FTE's	13.17	45	47

Program Area	# of Staff at Year End			
	2012	2013	2014	2015
Finance	4	5	7	7
Grievances & Appeals	-	2	2	2
IT	4	8	8	8
Legal	2	3	3	3
Marketing & Communications	3	8	8	8
Operations	6	6	6	6
Policy	3	5	5	5
Senior Executives	8	8	8	8
Total	30	45	47	47

Staffing & Fringe Estimates *(con't)*

- Salary level ranges from approx \$65,000 to \$225,000
- Inflation adjustment 3% beginning in 2013
- Average salary level, fully staffed: \$104,581
- Exchange business model warrants high ratio of Directors/Senior Mgmt to total staff.
 - ▣ Highly outsourced business model requires less staff at manager level and below
 - ▣ Need seasoned managers to supervise vendor contracts and transition from start-up to operations

Staffing & Fringe Estimates *(con't)*

□ Comparison to other states:

	CT	WV	WA	MA ³
Size of Exchange ¹	121,500 – 155,250	49,616 – 99,648	187,500 – 500,000	256,369
# of Resources ²	47	34	115	~48

NOTES:

(1) Size of exchange: 2015 estimates, except Mass.

(2) # of resources: 2014 estimates, except for Mass.

(3) Mass data is 2010 best estimate based on publicly available data.

Communications, Advisory, and Professional Services

Multi-Year Grant Period Total

Staff Augmentation & Project Management	\$4,150,000
Marketing, Outreach, & Communications	\$8,850,000
Programmatic Resources	\$7,879,667
Total Communications, Advisory & Professional Services	\$20,879,667

See next slide for contextual details



Communications, Advisory, and Professional Services *(con't)*

- Intensive use of temporary Professional Consulting during ramp up periods of 2012 and 2013
- Outreach, Marketing, and Advertising central to success of initiative
- Extensive effort dedicated to Navigators program development and training
- Program Management Office necessary to provide integration and coordination across initiatives/agencies
- APCD requested to assist in analytical needs of Exchange including the potential to administer risk adjustment and reinsurance (pending state decision)
 - ▣ Grant will only cover components that benefit the Exchange

Other Direct Costs – Non-IT

Major Category	Total for Grant Period
Equipment	\$793,010
Supplies	\$18,930
Travel	\$132,938
Other Administrative	\$2,665,018
Total	\$3,609,896

- Number of general and administrative spending categories
- Examples: Supplies, Rent & Utilities, Office Equipment, Printing, and Collateral Materials
- Have also included a very preliminary estimate for the appeals function

Other Direct Costs – Non-IT

□ Appeals

- Required Exchange function under the ACA
- Types of appeals include:
 - Providing certificates of exemption from the individual responsibility provision
 - Eligibility determination appeals
- Cost estimates include:
 - Staffing, training, hearing officers, hearing rooms, etc.
- Estimates were benchmarked from data shared by MA Health Connector and customized to CT

Other Direct Costs – IT Cost Estimates

Components of IT Cost Estimation Model

- Cost Estimation Model:
Industry accepted, compliant with
Federal IT budget methods,
best practice
- Elements:
 - ▣ Re-use of existing IT
 - ▣ Volume and Complexity of
Business Processes, Function Points,
and Cost Levers
- Cost Model is constantly refined &
updated based on actual HIX
experience
 - ▣ Missouri, Ohio, Pennsylvania,
New Jersey, and Rhode Island
- Scope incl Health Insurance Exchange
+ Integrated Eligibility MAGI
- Estimates for comprehensive end-to-
end process (from here through
testing, go-live, acceptance):
 - ▣ Design, Development &
Implementation or “DDI”
 - ▣ Connection to all necessary State
and federal systems
- Major Categories
 - ▣ Software
 - ▣ Hardware
 - ▣ System Integrator

IT Cost Estimate: Reuse Strategy

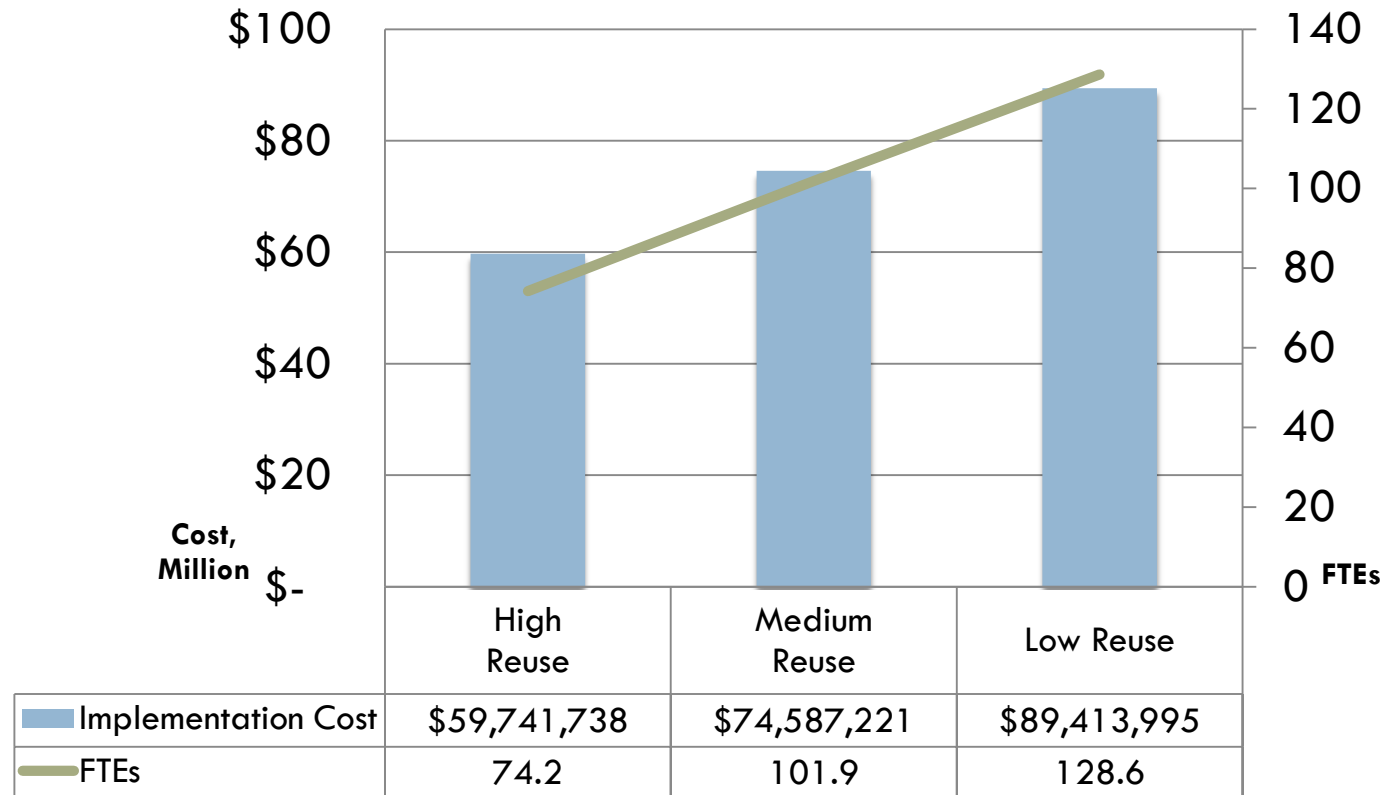
Reuse Strategy is a Component of IT Cost Estimation

- The Market
 - ▣ Commercial Off The Shelf Solutions (COTS)
 - ▣ Transferable Solutions based on a COTS platform
- The State of CT
 - ▣ Connecticut Insurance Department
 - ▣ Department of Social Services
 - ▣ Bureau Enterprise Systems and Technology
 - ▣ Health Insurance Exchange
- Other States' (similar) IT Systems

IT Cost Estimate: Reuse Strategy

IT Reuse and FTE Headcount are Interrelated

High reuse is associated with lower project headcount.



IT Cost Estimate: Reuse Strategy

Medium Reuse, Medium Cost

- Asset, HR, and Procurement Management are to be implemented using a number of mechanisms including payroll processing, remotely hosted QuickBooks and therefore are not a part of any future procurement
 - Minimum automated Plan Management functionality (mostly manual process per MOU with CID)
 - Risk Management, Risk Adjustment, and Reinsurance Risk will be outsourced to federal government or other entity. Minimum functionality
- Reduction of \$14.8M in DDI, and \$1.77M in O&M over **Low Reuse, High Cost** option

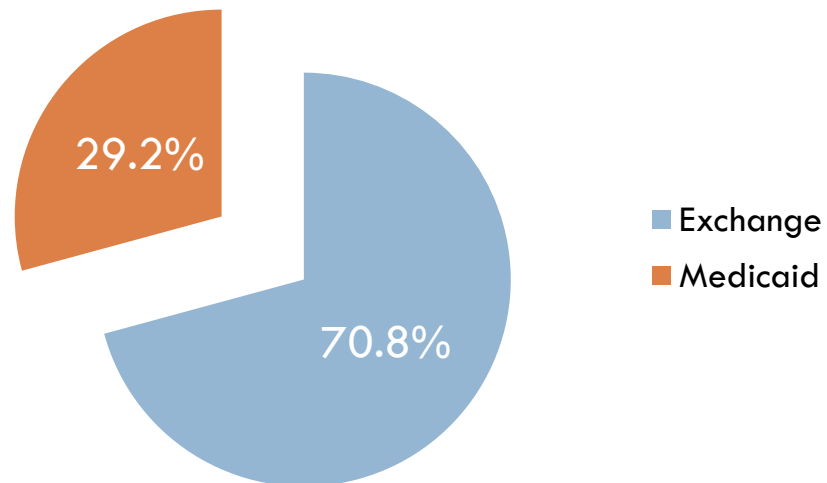
IT Cost Estimate: Reuse Strategy

High Reuse, Low Cost

- Medium Reuse (manual Plan Management, Risk Management not core system function of exchange, Asset, HR and Procurement Management not part of a procurement)
 - Reuse of DSS systems related to unified Communication, Rules and Workflow Engines
 - Reuse of BEST Information Management, Knowledge Management, B2B Gateway, Privacy and Security, Data Management, Service Management, and Integration Management
- Reduction of \$14.8M in DDI, and \$3.6M in O&M over **Med. Reuse, Med. Cost** option
 - Reduction of \$29.7M in DDI, and \$5.4M in O&M over **Low Reuse, High Cost** option

IT Cost Estimate: Program Allocation Methodology

Programs Supported	Allocation	
	Exchange	Medicaid
Exchange Only	100%	0%
Exchange and Medicaid	Shared Based on Estimated User Population	
Medicaid Only	0%	100%



Exchange Self Sustainability: Model Assumptions

- Indicating how Exchange intends to be self sustaining beginning in 2015 is requirement of grant application
- The revenue model indicated in the grant application **does not bind** the Exchange
- For fiscal conservatism, we modeled the **most narrowest assessment type** – applying a fee on exchange enrollment only

Exchange Self Sustainability: Model Assumptions *(con't)*

- Volume Estimate:
Used total Exchange enrollment take-up estimate for 2015 by Thomson Reuters as Moderate “pick”
- Hi/Lo Range:
Used 10% downward & 15% upward adjustment to create a low/high end range for modeling
- Non-Group/Small-Group Split:
 - ▣ Assumed 80/20 split for non-group and small group enrollment mix
 - ▣ Used 2015 non-group and small group premium levels from Mercer
- For major systems operations which include (hardware/software/people), utilized a benchmark PMPM and scaled for CT-specific enrollment (top-down approach)
- For all other expenses, leveraged detailed work done for grant application period and extended assumptions into 2015 (bottom-up approach)
- Did not include a reserve in the required assessment (although Exchange will want to consider)

Exchange Self Sustainability

	Total Estimated Cost - 2015			Total Estimated PMPM Cost - 2015		
	Low	Moderate	High	Low	Moderate	High
Members				121,500	135,000	155,250
Member Months				1,289,115	1,432,350	1,647,203
Total Exchange Premiums	\$ 552,174,363	\$ 613,527,070	\$ 705,556,130	\$ 428.34	\$ 428.34	\$ 428.34
QHP Surcharge %				4.76%	4.38%	3.92%
Total Operating	\$ 26,306,439	\$ 26,846,185	\$ 27,655,804	\$ 20.41	\$ 18.74	\$ 16.79

Takeaways:

- Exchange is self sustaining at low enrollment levels
- Assessment percentage is reasonable based on other researched benchmarks
- Exchange will need to continue to refine its revenue model as more information becomes available, especially outsourcing strategy

Questions and Answers

